

House File 2471 - Introduced

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BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HF 2359)

(SUCCESSOR TO HSB 604)

A BILL FOR

1 An Act relating to economic development by providing an
2 adjustment to net income for certified suppliers of anchor
3 manufacturers for purposes of state taxation and including
4 retroactive applicability provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. NEW SECTION. **15.226 Definitions.**

2 For purposes of this part:

3 1. "*Anchor manufacturer*" means a business that meets all of
4 the following:

5 a. Manufactures tangible personal property at a facility in
6 Iowa.

7 b. Exports at least fifty percent of the tangible personal
8 property produced at the facility to markets outside of the
9 state.

10 2. "*Certified supplier*" means a business certified pursuant
11 to section 15.227.

12 3. "*Facility*" means a building or buildings located in the
13 state at which tangible personal property is manufactured for
14 sale within or without the state of Iowa.

15 4. "*Manufactured*" or "*Manufactures*" means adding value to
16 personal property through a process of manufacturing, refining,
17 purifying, combining of different materials, the packaging of
18 meats, extracting and recovering natural resources, and all
19 processes of fabricating and curing, with a view to selling the
20 property for gain or profit.

21 5. "*Tangible personal property*" means the same as defined in
22 section 422.33, subsection 2, unnumbered paragraph 2.

23 Sec. 2. NEW SECTION. **15.227 Certification of suppliers.**

24 1. A business meeting the requirements of subsection 2 may
25 apply to the authority, no later than ninety days after the
26 end of a tax year of the business, for certification under
27 this section. If a business applying to the authority meets
28 the requirements of subsection 2, the authority shall issue
29 a certificate to the business stating that the business is a
30 certified supplier.

31 2. To receive certification as a certified supplier, a
32 business must meet all of the following for the tax year
33 immediately preceding the tax year for which the requested
34 certificate will be valid:

35 a. The business manufactures tangible personal property at a

1 facility in Iowa.

2 *b.* The business derives more than ten percent of its gross
3 sales of tangible personal property manufactured at a facility
4 in Iowa from sales to anchor manufacturers. For purposes of
5 the requirement in this paragraph, a business may aggregate
6 gross sales to more than one anchor manufacturer.

7 *c.* All sales by the business to anchor manufacturers are
8 arm's length transactions.

9 *d.* The business provides a statement from an anchor
10 manufacturer, signed by an officer or authorized representative
11 of the anchor manufacturer, attesting that the anchor
12 manufacturer meets the definition of anchor manufacturer under
13 section 15.226, and provides supporting documentation in a form
14 prescribed by the authority.

15 *e.* The business meets one of the following criteria:

16 (1) At least ten percent of the total payroll of the
17 business is located in the state.

18 (2) The business employs at least fifty employees at a
19 facility in the state.

20 *f.* The business agrees to annually provide to the authority
21 information and data on jobs created and capital investments
22 made in the state by the business. The information and data
23 shall be in a form prescribed by the authority.

24 *g.* The business is not an anchor manufacturer.

25 3. A certificate is valid for one tax year and shall include
26 an expiration date. Reapplication may be made each year for
27 certification under this part. The department of revenue shall
28 accept a validly issued, unexpired certificate issued under
29 this section.

30 4. The authority shall not issue certificates pursuant
31 to this section for tax years beginning on or after January
32 1, 2015. On or after January 1, 2015, the authority and the
33 department of revenue shall coordinate with the chairpersons
34 of the senate and house standing committees on economic
35 growth and rebuild Iowa to evaluate the effectiveness of this

1 certification process and the related adjustments to net income
2 provided in chapter 422, and the feasibility of continuing both
3 into the future.

4 Sec. 3. NEW SECTION. 15.228 Eligibility for adjustment to
5 net income of certified suppliers.

6 1. A certified supplier shall be eligible to make the
7 adjustment to net income in section 422.35, subsection 26, for
8 a tax year if all the following apply:

9 a. The certified supplier's net business income for the tax
10 year, allocated and apportioned to this state under section
11 422.33, subsection 2, paragraph "b", computed without regard
12 to section 422.35, subsection 26, increased by more than five
13 percent over the certified supplier's net business income in
14 the prior year, allocated and apportioned to this state under
15 section 422.33, subsection 2, paragraph "b".

16 b. The certified supplier attaches a copy of a valid,
17 unexpired certificate issued under section 15.227 to the
18 certified supplier's tax return required under chapter 422.

19 2. A taxpayer who is a shareholder in a subchapter S
20 corporation that is a certified supplier shall be eligible to
21 make the adjustment to net income in section 422.7, subsection
22 57, for a tax year if all the following apply:

23 a. The certified supplier's net business income for the tax
24 year, allocated and apportioned to this state under section
25 422.33, subsection 2, paragraph "b", computed without regard
26 to section 422.35, subsection 26, increased by more than five
27 percent over the certified supplier's net business income in
28 the prior year, allocated and apportioned to this state under
29 section 422.33, subsection 2, paragraph "b", computed with
30 regard to section 422.35, subsection 26, if the subchapter S
31 corporation was a certified supplier in the previous tax year
32 and met the eligibility requirements in this paragraph "a".

33 b. The shareholder attaches a copy of a valid, unexpired
34 certificate issued under section 15.227 to the shareholder's
35 tax return required under chapter 422.

1 3. For purposes of establishing eligibility under this
 2 section, "*net business income*" shall not include any income of
 3 a certified supplier that is attributable to an existing trade
 4 or business or income-producing contract that was acquired by
 5 the certified supplier through merger or acquisition during or
 6 after the first year for which the certified supplier becomes
 7 eligible pursuant to this section for the adjustments to net
 8 income in section 422.7, subsection 57, or section 422.35,
 9 subsection 26.

10 Sec. 4. NEW SECTION. **15.229 Rules.**

11 The authority and the department of revenue may adopt rules
 12 for the implementation of this part.

13 Sec. 5. Section 422.7, Code Supplement 2011, is amended by
 14 adding the following new subsection:

15 NEW SUBSECTION. 57. *a.* If the adjusted gross income
 16 includes income from a subchapter S corporation for which the
 17 taxpayer is a shareholder, which subchapter S corporation is
 18 a certified supplier that meets the requirements in section
 19 15.228, subsection 2, paragraph "*a*", the taxpayer may subtract
 20 an amount based on the taxpayer's pro rata share of the
 21 profits or losses from the subchapter S corporation equal to
 22 the difference between the subchapter S corporation's net
 23 business income for the tax year, allocated and apportioned
 24 to this state under section 422.33, subsection 2, paragraph
 25 "*b*", computed without regard to section 422.35, subsection 26,
 26 and one hundred five percent of the subchapter S corporation's
 27 net business income for the prior tax year, allocated and
 28 apportioned under section 422.33, subsection 2, paragraph "*b*",
 29 computed with regard to section 422.35, subsection 26, if
 30 the subchapter S corporation was a certified supplier in the
 31 previous tax year and met the requirements in section 15.228,
 32 subsection 2, paragraph "*a*". A taxpayer who is a resident shall
 33 not make the subtraction provided in this subsection unless
 34 the taxpayer also makes an election pursuant to section 422.5,
 35 subsection 1, paragraph "*j*", subparagraph (2).

b. For purposes of the adjustment provided in this subsection, "*net business income*" shall not include any income of a certified supplier that is attributable to an existing trade or business or income-producing contract that was acquired by the certified supplier through merger or acquisition during or after the first year for which the certified supplier becomes eligible for the adjustment in this subsection.

9 Sec. 6. Section 422.35, Code Supplement 2011, is amended by
10 adding the following new subsection:

11 NEW SUBSECTION. 26. *a.* If the taxpayer is a certified
12 supplier that meets the requirements in section 15.228,
13 subsection 1, subtract an amount equal to the difference
14 between the taxpayer's net business income for the tax year,
15 allocated and apportioned under section 422.33, subsection 2,
16 paragraph "b", computed without regard to this subsection, and
17 one hundred five percent of the taxpayer's net business income
18 for the prior tax year, allocated and apportioned under section
19 422.33, subsection 2, paragraph "b".

b. For purposes of the adjustment provided in this subsection, "*net business income*" shall not include any income of a certified supplier that is attributable to an existing trade or business or income-producing contract which was acquired by the certified supplier through merger or acquisition during or after the first year for which the certified supplier becomes eligible for the adjustment in this subsection.

28 Sec. 7. RETROACTIVE APPLICABILITY. This Act applies
29 retroactively to January 1, 2012, for tax years beginning on
30 or after that date.

EXPLANATION

32 This bill creates an economic development program that
33 allows a certified supplier to make an adjustment to net income
34 for state individual and corporate income tax purposes. The
35 adjustment is available for corporations and shareholders of

1 subchapter S corporations.

2 To qualify as a certified supplier under the bill, a business
3 must manufacture tangible personal property in Iowa, derive
4 more than 10 percent of its gross sales from sales to anchor
5 manufacturers, make all its sales to anchor manufacturers at
6 arm's length, supply the authority with a signed statement
7 from the anchor manufacturer attesting that the anchor
8 manufacturer qualifies as an anchor manufacturer, either
9 maintain at least 10 percent of its payroll in Iowa or employ
10 at least 50 employees in Iowa, and must not be an "anchor
11 manufacturer". "Anchor manufacturer" is defined as a business
12 that manufactures tangible personal property in Iowa and
13 exports at least 50 percent of the tangible personal property
14 produced in Iowa outside of the state.

15 A business that meets all of the qualifications of a
16 certified supplier may annually apply to the authority to
17 receive a certificate labeling the business as a certified
18 supplier. A business must apply for a certificate no later
19 than 90 days after the end of its tax year. The certificate is
20 valid for one year and shall include an expiration date.

21 The certified supplier will be entitled to make an
22 adjustment to its net income if it attaches the valid,
23 unexpired certificate to its tax return, and if its net
24 business income allocated and apportioned to this state,
25 computed without regard to the adjustment to net income
26 provided in the bill, increased by more than 5 percent over
27 its prior year net business income allocated and apportioned
28 to this state.

29 If both requirements are met, the certified supplier is
30 entitled to subtract from its net income an amount equal to
31 the difference between its current year net business income
32 allocated and apportioned to this state, computed without
33 regard to the adjustment to net income provided in the bill,
34 and 105 percent of its prior year net business income allocated
35 and apportioned to this state. For purposes of determining

1 eligibility for the adjustment to net income and calculating
2 the adjustment to net income, "net business income" shall not
3 include any income of a certified supplier that is attributable
4 to an existing trade or business or income-producing contract
5 that was acquired by the certified supplier through merger
6 or acquisition during or after the first year for which the
7 certified supplier becomes eligible for the adjustment to net
8 income. The economic development authority shall not issue
9 certificates for tax years beginning on or after January 1,
10 2015. After that date, the economic development authority
11 and the department are both required to coordinate with the
12 chairpersons of each committee on economic growth/rebuild Iowa
13 to evaluate the certification program.

14 The bill provides the authority and department of revenue
15 with rulemaking authority.

16 The bill applies retroactively to January 1, 2012, for tax
17 years beginning on or after that date.